

VZCZCXRO3839
RR RUEHROV
DE RUEHDJ #0553/01 1781135
ZNR UUUUU ZZH
R 261135Z JUN 08
FM AMEMBASSY DJIBOUTI
TO RUEHC/SECSTATE WASHDC 9342
INFO RUCNIAD/IGAD COLLECTIVE

UNCLAS SECTION 01 OF 03 DJIBOUTI 000553

SIPDIS
SENSITIVE

DEPARTMENT FOR AF/E

E.O. 12958: N/A
TAGS: [ECON](#) [EFIN](#) [EINV](#) [PREL](#) [DJ](#)
SUBJECT: DJIBOUTI'S GROWING FINANCIAL SERVICES SECTOR

REF: 2006 DJIBOUTI 783

11. (U) SUMMARY: Djibouti has long served as a regional financial services center for the Horn of Africa. As Djibouti increasingly seeks to position itself as a world-class shipping and services platform, it has looked to cement its status as a financial services hub. Three new banks have recently joined the two longtime grande dames of Djibouti's banking sector (reftel), and several other banks are slated to open in the near future. Given that Djibouti offers a liberal economic regime, a small but relatively untapped domestic market, and--most importantly--an excellent vantage point for providing services to shipping and logistics firms, neighboring countries, and eventually the 300 million-strong COMESA market, Djibouti's banking sector will likely continue to expand. END SUMMARY.

TWO VENERABLE ANCHORS

12. (U) BANQUE INDOSUEZ-MER ROUGE (BIMR): Founded in 1908, BIMR is Djibouti's oldest bank, and recently celebrated its 100th anniversary. For ten years, BIMR has been affiliated with Credit Agricole Indosuez. According to BIMR's Deputy Director-General, 2006 and 2007 were both excellent years for BIMR. The Deputy Director-General attributed part of this success to strong U.S. growth, explaining that a high proportion of BIMR's transactions are in dollars, and that BIMR had invested their dollar reserves primarily in U.S. markets. The Deputy Director-General said that while only a few years ago BIMR was considering pulling out of Djibouti, recent strong performance and a favorable outlook for future growth have reversed that decision, and BIMR is now even looking to expand its range of products and services in Djibouti. In an effort to attract business from some of the 11 out of 12 Djiboutians who do not currently use formal banking services, BIMR has recently simplified its account opening procedures, and has lowered the wage thresholds for account ownership, from 150,000 DJF to 70,000 DJF (USD 850 to USD 395). BIMR is also expanding its real estate loan products, and offering small (USD 500 to USD 850) loans for the purchase of household solar energy kits.

13. (SBU) BIMR employs approximately 135 staff members, of whom six are expatriates. According to the Deputy Director-General, Djiboutians returning home after years spent working abroad have already proven a new and promising hiring pool in recent recruitment efforts. While the Deputy Director-General was generally sanguine about BIMR's ability to hold its own amidst challenges from new arrivals, he said that competition could drive down interest rates below what was sustainable for Djibouti's high-risk environment. He also complained that some of the newly opened banks had gained special privileges through the backing of powerful sponsors, and were opening accounts without requiring proper bona fides. He also pointed out that BIMR's main traditional rival, the Banque pour le Commerce et l'Industrie (BCI), was partially owned by the GODJ, and therefore enjoyed a monopoly on salary transfers for government employees, and preferential access to major government contracts and international grants.

14. (SBU) BANQUE POUR LE COMMERCE ET L'INDUSTRIE (BCI): In terms of volume of customers, size of assets, number of employees, and country-wide reach, BCI claims to be the largest bank in Djibouti. BCI employs 170 workers, and with outlets in Tadjourah and Ali-Sabieh, is the only bank in the country with branches outside of Djibouti City. BCI maintains ATMs in Djibouti City and in the district offices, and plans to offer more electronic banking options in the future. The GODJ holds a 33% stake in BCI, with the remaining shares owned by Groupe Banque Populaire (51%) and a Yemeni bank (16%). According to BCI's Deputy Director-General, high transaction costs have led BCI to focus less on low-income clients, and more on high-income, large-volume customers, including both the French and U.S. militaries. The Deputy Director-General welcomed competition from the newly-opened banks, which he said were absorbing some of the lower-income accounts, freeing BCI to focus on more lucrative clients. However, the Deputy Director-General emphasized the new banks' responsibility to follow established rules and procedures, including full and transparent accounting for the origin of their funds. He said that this kind of transparency was necessary to maintain Djibouti's overall banking reputation, and underscored BCI's commitment to upholding its own reputable history.

THREE NEW ARRIVALS

15. (SBU) BANQUE DE DEPOT ET DE CREDIT DE DJIBOUTI (BDCD): Djibouti's newest bank opened its doors in December 2007, and was officially inaugurated by President Guelleh in February 2008. BDCD is affiliated with Geneva-based Swiss Financial Investments SA, but is also backed by private French, Dutch, and Italian investors. BDCD,

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which eventually hopes to establish a banking network in the region, currently employs 11 people, including two expatriates. According to BDCD's CEO, the new bank has three main aims: 1) traditional banking services, 2) comprehensive business financial services, including special loans and firm restructuring, and 3) private banking for wealthy clients. While targeting large business clients and wealthy individuals, BDCD simultaneously hopes to reach out to the large number of Djiboutians who do not have a bank account. (NOTE: According to the Central Bank of Djibouti, only 8% of Djiboutians hold a bank account. END NOTE) BDCD already has a reputation for offering the least onerous account opening procedures. While the CEO agreed that BDCD had tried to simplify paperwork, he was also careful to point out that the bank strictly follows all established Central Bank documentation guidelines. According to the CEO, BCI and BIMR host about 50,000 individual accounts, with the three new banks hosting an additional 5,000 between them. BDCD hopes to attract more clients with personalized customer service, including account statements available in French, English, and Arabic. BDCD's CEO praised Djibouti's open investment climate, and said that the bank had received excellent support from the Central Bank and the National Investment Promotion Agency during its set-up process.

16. (SBU) INTERNATIONAL COMMERCIAL BANK (ICB): This Malaysian-based bank opened its first branch in Djibouti in November 2006, and added a second location in March 2008. ICB has already acquired additional land parcels for a further branch, as well as for a housing development. According to the CEO for Djibouti operations, ICB is particularly interested in serving customers who have never held a bank account. With the GODJ, ICB is planning to put specialized ATMs in poorer areas of Djibouti to dispense government pensions. These ATMs would potentially save elderly pensioners on a fixed income time and money by eliminating a trip downtown to the pension office or bank. According to the CEO, ICB has also made an effort to educate first-time banking customers on good banking practices, especially after a spate of bad ICB checks passed in town hurt the new bank's initial reputation. ICB currently employs 23 people, including three expatriates. The CEO--himself an expatriate--praised the aptitude of locally-hired staff members, but stressed the need for continuous training. He also said that ICB had had a negative experience with a local employee who stole \$80,000 in bank funds, of which 70% were eventually recovered.

¶7. (SBU) SABA ISLAMIC BANK (SIB): When it opened in June 2006, SIB became the only Islamic bank in Djibouti. SIB is a private Yemeni bank with 12 branches in Yemen; Djibouti represents its first overseas branch. According to SIB's Djibouti Deputy Director, the bank sees Djibouti as a good jumping-off point for future expansion into the neighborhood, including into Ethiopia if restrictions on foreign banks are lifted, and eventually into the greater COMESA market. SIB already has accumulated 6,000 individual and business accounts. The Deputy Director estimated that about 45% of these customers also maintain accounts in other local banks, while the remaining 55% maintain accounts only with SIB. SIB currently employs 34 people, including 12 of Yemeni origin. All employees must speak Arabic and English. SIB has the only ATM in Djibouti that accepts international cards, and is planning to put in additional international ATMs at the showcase Kempinski luxury hotel and a local supermarket, as well as more ATMs for local customers. The Deputy Director--who recently returned to Djibouti after working for several years for Scotia Bank in Canada--also has plans to introduce other electronic banking options in the future.

FOUR MORE ON THE HORIZON?

¶8. (SBU) According to contacts at the Central Bank of Djibouti, there are currently four additional banks that have been licensed to operate in Djibouti. The Yemen-based Cooperative & Agricultural Credit Bank (CAC), to be located within the Dubai Customs offices at the Port of Djibouti, is likely to open later this year. The privately-backed East African Islamic Bank is also planning to open this year, in a downtown location. Further down the road are the Kuwait-based Zumorrodah African Bank, and the International Bank of Yemen.

¶9. (U) To open a bank in Djibouti, the candidate must apply for a one-year temporary license, and deposit 1.7 million USD in a local account. This deposit is kept as a guarantee in case of bankruptcy. After all administrative requirements have been fulfilled, the Central Bank of Djibouti issues a permanent license.

¶10. (SBU) COMMENT: Djibouti's growing number of banking choices gives regional businesses and investors yet another reason to use Djibouti as a logistics platform. By increasing competition and offering new kinds of services, the new banks are also a boon to the vast majority of ordinary Djiboutians who have never used formal banking services. While most Djiboutian banking professionals agree that there is still enough pie in the sector for everybody to get a

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slice, a recent history of banks opening and then failing has made some Djiboutians nervous about too-rapid expansion. To avoid past mistakes and ensure that this growing sector supports and complements Djibouti's up-and-coming service economy, careful GODJ oversight will be needed. END COMMENT.

LIST